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Our Mission - Gain and Maintain Financial Freedom For Clients

2nd Quarter 2009 Issue #75

Quotes: "There is a time for everything, and a season for every activity under heaven... a time to tear down and a time to build..."

Ecclesiastes 3:1 & 3

1st Quarter and March 2009 Major Indices Returns (%)

	1 st QTR	March
Dow Jones Industrials:	-12.43	+7.92
S&P 500:	-10.98	+8.74
MSCI EAFE: (a)	-14.64	+5.87
NASDAQ Composite:(a)	-3.07	+10.94

Source: Citigroup Global Markets
(a) excludes dividends

Tearing Down and Building:

"Tearing down" is not a pleasant part of a recession as businesses suffer and dislocations are created by job losses and consumer retrenchment. But just as we have seen before in the aftermath of a forest fire, new life springs forth and a renewed process of building and growth gets underway. The late 1970's and early 1980's was also a very disruptive economic period but who could have foreseen the innovation and growth that was coming over the next decades in such fertile fields as communications, computing, health care, and indeed, in many areas of manufacturing and industry?

We do not know what the future holds for us except to say that we do not think society is done "building". This may seem a distant concept right now, but, we imagine it felt this way during previous downturns too.

Markets & The Economy: Our quote seemed fitting as we prepared these remarks in early April near the end of Lent and the beginning of Passover. At the end of the first quarter, the world remained mired in a difficult global recession that continued to pressure equity market returns through the end of the first quarter. As can be seen from the data though, equity markets did experience a strong rebound in the month of March.

As noted in recent Bakken Group Letters, economic & recessionary pressures have not been limited just to the US. The Organisation For Economic Co-Operation and Development (OECD) is now projecting that gross domestic product (GDP) across the OECD area may contract more than 4% in 2009 while global GDP may contract 2.7% as trade slows and unemployment rises. (source: OECD Interim Economic Outlook, March 2009). We cautioned in our first quarter 2009 issue that we might see unemployment rise further and we were unfortunately correct. The US Bureau of Labor Statistics reported on April 03 that domestic unemployment rose from 8.1% to 8.5%. While it might seem counterintuitive though, unemployment data is often viewed as a lagging indicator; during previous recessions, rising joblessness was frequently a later-stage occurrence (source: Long-term unemployment in recent recessions, Randy Ilg, Monthly Labor Review, pg 12, June 1994).

In fact, some economic data suggests that things may be stabilizing both here and abroad. March was the third consecutive month of an increase of the Institute for Supply Management's April 1 2009 Manufacturing ISM *Report On Business*® index. The National Association of Realtors reported that February sales of existing homes rose 5.1%, the biggest one month gain since late 2003 (source: Wall Street Journal, 3-24-09). Overseas, UK home prices also rose nearly 1% in March 2009, the first month-to-month rise in home prices since late 2007 while a Bank of England survey shows that banks are planning to increase lending to British companies for the first time in more than a year (source: Wall Street Journal 4/3/09).

We have also begun to see some improvement in the credit markets. The spread or difference between the yields of corporate & municipal bonds versus US Treasuries contracted during the first quarter as compared to late 2008. We believe this can generally be viewed as positive since shrinking spreads can be an indicator of an improving bond market. There is also some evidence of credit improvement in the banking sector as the LIBOR (London Interbank Offered Rate) yields have also declined this year, meaning that inter-bank lending is showing signs of improvement.

Lastly, we were pleased to learn of the revisions to so-called "mark-to-market" accounting rules announced on Thursday April 02. The details of the changes are beyond the scope of this letter but, in general, the changes should allow financial firms more flexibility in classifying their assets, particularly, those that are not part of an active trading market. This could help banks and other financial firms more effectively manage assets and, by extension, their regulatory capital requirements.

On The Corporate Front... Many companies are working to conserve cash and further strengthen balance sheets. This is occurring via activities such as reductions in routine expenses, reduced employment, scaled-down or delayed capital spending plans, and tighter inventory & supply chain management. Some companies are also reducing their share buy-back programs and reducing or eliminating dividends.

Dividend reductions are essentially never welcome. Collectively though, we judge that the actions many companies are taking today could have positive long-term consequences during future periods of economic strength. The companies that are the most effective at reducing costs and improving efficiency & productivity today should stand to benefit from their actions during an eventual recovery.

We ♥ Referrals! Especially now, we believe people need good advice perhaps more than ever. We want to meet individuals, families, and business owners, i.e. your friends, colleagues & peers, and family, who may need practical long term guidance. If you know someone that you feel may benefit from a working relationship with The Bakken Group, please let us know by providing their contact information below.

Name _____
Address: _____
City: _____
State: _____ Zip: _____
Phone: _____

Dow Jones Industrial Average is a price-weighted index of the 30 “blue-chip” stocks and serves as a measure of the US market, covering such diverse industries as financial services, technology, retail, entertainment, and consumer goods. S&P 500 is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. The NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on NASDAQ. The MSCI EAFE® Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. As of May 2005 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. An investment cannot be made directly in a market index.

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As we finished this issue on April 08th, the ‘earnings season’ for first quarter 2009 results was just getting underway and results may be disappointing. Indeed, we could see corporate earnings remain under pressure a while longer but we remain confident that growth will eventually resume. The painful part of finding an economic bottom though is that you never really know when it has occurred until it is clearly obvious in hindsight.

One potential growth catalyst may be the decline in consumer and business spending that we have just experienced. Very simply, we believe that pent-up demand for goods & services is growing and at some point, people and businesses will need to make purchases. Durable and consumable goods eventually need to be replaced and replenished; things wear out or are consumed and therefore we feel spending should eventually begin to move higher.

Next Steps – Near Term: Cash may feel like a safe haven – at the moment. For investors with a truly long term horizon though – especially for those thinking over their life expectancy – we are more concerned now about potential future inflation than we perhaps have been for some time. Interest rates remain low and the money supply has grown significantly aided by government stimulus plans as well as the US Treasury’s plans to buy nearly \$1 trillion of debt. We cannot offer any assurance on the future direction of inflation except to conclude that the potential for rising inflation exists based upon previous historical experience of low interest rates and abundant money supply.

This recession’s broad bear market decline in asset values encompassed not only equities but much of the fixed income arena. This is not a very typical occurrence but this has in our view created an opportunity to not only accumulate attractive equities at lower price and PE levels but also to accumulate and potentially reposition into non-US Treasury fixed income. We noted that fixed income yield spreads contracted some in the first quarter but we believe they are still wide enough to reveal potential opportunities. We also judge this to be a sensible approach given the desirability of generating more current income particularly when equity dividends are under pressure.

A Time to Build? This period may be one that profoundly changes investor attitudes about all sorts of things including consumption, spending, risk, saving, and investing. If you have concluded that you should spend less, consume more prudently, and as our quote says, “build”, then you may be thinking about how to save and invest.

As unsatisfying as it may have been to be an equity investor over the past decade, the long history of investment returns over multiple decades of time still supports, in our opinion, a prudent and balanced ownership of equities. In considering “how”, we have always marveled at the psychology that drives people to seek the lowest possible price when buying “things” while we only seem to be content buying equities when the outlook is “good”, often when market indices are higher.

The simple and well-know axiom to “buy low & sell high” is as applicable today as ever. Therefore, we judge this to be a potentially opportune time for those seeking to continue building and accumulating assets. Adding to your investment holdings now can be, in our view, one potential way to work on the “building”.

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